

Minneapolis | St. Paul

425 Portland Avenue
Minneapolis, MN 55488

May 22, 2012

Docket No. MC2012-14

Docket No. R2012-8

Shoshana Grove
Secretary
Postal Regulatory Commission
Washington, D.C. 20268-001

Re: Comments of Star Tribune Media Company LLC re: Valassis NSA

Dear Secretary Grove:

I am writing on behalf of Star Tribune Media Company LLC ("Star Tribune") to oppose the proposed Negotiated Service Agreement ("NSA") between the US Postal Service and Valassis, a national distributor of preprinted advertising inserts. The Star Tribune opposes the NSA because it wreaks havoc in a very competitive market by conferring a significant and unwarranted competitive advantage on one competitor, to the extreme disadvantage of an entire industry and, particularly, at the expense of and to the grave detriment of regional and local competitors – and postal customers - such as the Star Tribune.

Background

Star Tribune Media Company LLC, is a newspaper and media company that publishes the *Star Tribune* newspaper in both print and online. In addition to the *Star Tribune* newspaper, Star Tribune publishes numerous niche products in both print and online media, including *Twin Cities Values* or *TCV*, a total market coverage product targeting nonsubscriber households.

The *Star Tribune* is the leading daily and Sunday newspaper in the Minneapolis / St. Paul metropolitan area with a daily circulation of approximately 300,330, and a Sunday circulation of approximately 514,355. On the basis of circulation, the *Star Tribune* ranks nationally as the 8th largest Sunday newspaper and the 13th largest daily newspaper. It is the number one newspaper in the Minneapolis / St. Paul metropolitan area, read by approximately 66% of the area's readers.

Like most media companies, Star Tribune has been greatly impacted by the recession in the economy, by a severe and precipitous decline in advertising, and by the

emergence of new competition for advertising. In response, the company reorganized its business practices, reduced its costs and its workforce and sought to achieve every efficiency possible. In January 2009, the Star Tribune filed for chapter 11 reorganization and in September 2009, it emerged from bankruptcy.

Today, the Star Tribune is a privately held company, not part of a national chain. It continues to serve its region by providing news and information that readers value, and its chief source of revenue comes from the sale of advertising. In this context, the ability to deliver pre-printed advertising either targeted to certain consumers or delivered to the entire market is a key capability for the Star Tribune. In 2011, preprints represented 68% of Star Tribune's total advertising revenue.

Among Star Tribune's competitors for the delivery of preprints in the Star Tribune's marketplace, the largest by far is Valassis, a dominant national mailing company with revenues 13 times the size of Star Tribune. Nevertheless, in the Twin Cities market, Star Tribune has been able to grow its preprint revenue, delivering total market coverage through two products, the *Star Tribune* newspaper and *TCV*.

In 2011, the Star Tribune spent about \$7.2 M on postage with the US Postal service. A large portion of that, about \$5.7 million, was for its *TCV* product. Although Star Tribune would prefer to deliver its *TCV* through the mail, without the benefit of rates like those awarded to Valassis by the NSA, and, in order to compete with those rates, Star Tribune is testing other methods of delivery.

The effect of the NSA

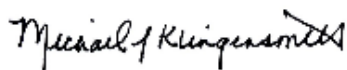
Today in our market, competition for national inserts is robust, and the Star Tribune and Valassis each deliver national preprints from national retail advertisers and are each charged the same rates when using the postal service. Next month, if the NSA goes into effect, Valassis will have access to postal rates 22 to 36 % lower than those available to the Star Tribune. This blatant favoritism of one competitor over another is unconscionable and will have serious repercussions in the marketplace and to the local and regional competitors of Valassis.

- Instead of increasing revenue for the postal service, this inequity will rapidly cause Star Tribune and other newspapers to seek reduced delivery costs through vendors other than the postal service. Current postal revenue will vanish as competitors of Valassis who do not qualify for the Valassis rate find lower cost solutions outside the post service.

- This situation is particularly outrageous because the eligibility guidelines for the NSA are so tightly drawn that no regional or local mailer, such as the Star Tribune, can by its very definition qualify for the low rates it confers.¹
- Nor does the requirement that the rate applies only to new mailings which contain new advertising in the “durable and semi durable goods” category lessen the severe anti-competitive effect of the NSA. In our market, advertisers in that category may be “new” to Valassis, but they are largely the current advertisers of the Star Tribune. Those two categories represent about 65% of the Star Tribune’s current preprint revenue. The NSA has targeted revenue vital to the survival of this newspaper, and favored a competitor with an unreasonable, unwarranted and patently unfair advantage.

In short, the application of the NSA as it relates to local and regional markets generally and to our market in particular, very clearly causes major and unreasonable harm to competition. It tilts the competitive playing field and dislocates the competitive marketplace by significantly favoring one national mailer over others and by focusing this unfair rate structure on categories of revenue that are critical to regional competitors (and therefore “new” to Valassis). In stacking the deck in favor of this large national mailer, the Postal Service ignores the inevitable loss of postal revenue that will occur as disfavored competitors such as the Star Tribune in market after market are forced to take their business elsewhere to stay competitive in their markets. For these reasons, we ask that the Postal Regulatory Commission reject this negotiated service agreement between the U.S. Postal Service and Valassis.

Sincerely,



Michael J. Klingensmith
Publisher and CEO

cc: The Honorable Senator Amy Klobuchar
The Honorable Senator Al Franken

¹ The NSA applies only to a “mailer who has the demonstrated capability to provide a broad multi-market shared mail program...to 50% of existing SCF areas” or 468 SCFs. In the entire state of Minnesota there are only 17 SCFs. And, if the four states which border Minnesota are included, there still are only 78 SCFs.